

Message Text

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PAGE 01 GENEVA 12351 120317Z
ACTION EB-08

INFO OCT-01 AF-10 EUR-12 NEA-10 IO-14 ISO-00 AGR-01
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TO SECSTATE WASHDC 3143
INFO AMEMBASSY COLOMBO
AMEMBASSY LONDON
AMEMBASSY NAIROBI
AMEMBASSY NEW DELHI
AMEMBASSY ROME

UNCLAS GENEVA 12351

E.O. 11652: N/A
TAGS: UNCTAD, ETRD
SUBJECT: UNCTAD COMMODITIES: TEA

1. MISSION HAS OBTAINED ADVANCE COPY OF FAO/UNCTAD REPORT ON INTERNATIONAL STOCKING ARRANGEMENTS FOR TEA WHICH WILL BE BASIC DOCUMENT BEFORE EXPERTS GROUP MEETING OF SEPTEMBER 18-29 AND SECOND PREPARATORY MEETING DECEMBER 11-15. ONLY ONE COPY OF THE 92-PAGE DOCUMENT IS AVAILABLE. THIS COPY WILL BE LEFT FOR ADAIR TO HAND CARRY TO WASHINGTON FOR ROSS SINCE, AS FAR AS WE KNOW, ADAIR IS SUPPOSED TO PASS THROUGH GENEVA THIS WEEKEND EN ROUTE TO WASHINGTON.

2. ACCORDING TO UNCTAD SECRETARIAT THIS WILL BE THE MAIN DOCUMENT BEFORE A MEETING OF TEA PRODUCING-EXPORTING COUNTRIES IN COLOMBO AUGUST 28 - SEPTEMBER 1. AMEMBASSY COLOMBO MAY WISH TO CONTACT APPROPRIATE OFFICIALS DURING AND AFTER THIS MEETING TO ASCERTAIN THEIR VIEWS ON THE
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PAGE 02 GENEVA 12351 120317Z

DOCUMENT.

3. MAIN CONCLUSIONS OF STUDY ARE THAT (A) A COMBINED EXPORT QUOTA AND 40,000 METRIC TON BUFFER STOCK SCHEME IS TECHNICALLY FEASIBLE AND (B) PRICES COULD BE MAINTAINED, OVER A FIVE-YEAR PERIOD BEGINNING IN 1978, WITHIN PLUS OR MINUS 10 PERCENT OF THE AVERAGE PRICE IN THE FIRST QUARTER

OF 1978, I.E., AROUND 240 U.S. CENTS PER KG. LONDON AUCTION. NOTE: WHILE "ALL TEA" LONDON AVERAGE WAS ABOVE THIS LEVEL FROM MARCH TO AUGUST 1977, THE SELECTION OF 240 PUTS THE PRICE AT THE UPPER LEVEL OF PRICES PREVAILING IN THE LAST YEAR AND CONSIDERABLY ABOVE THE PRE-MARCH 1977 LEVELS. THE BUFFER STOCK SIZE IS THE SAME AS THE MINIMUM SUGGESTED BY UNCTAD THREE YEARS AGO WHEN THE PRICE WAS AROUND 143. BOTH ESTIMATES ARE BASED ON A PERCENTAGE OF TRADE ALTHOUGH LATEST RESULTS INCORPORATING QUOTAS ARE ALSO BASED ON ADAMS-BOHRMAN ECONOMETRIC MODEL. END NOTE. ACQUISITION COST WOULD BE ABOUT \$76 MILLION (ASSUMING 20,000 MT BOUGHT AT 140 IN PRODUCING COUNTRIES AND 20,000 MT BOUGHT AT 240 IN CONSUMING COUNTRIES) WITH ANNUAL RUNNING COSTS BETWEEN \$10 - \$27 MILLION DEPENDING MAINLY ON TRADING LOSSES SUFFERED ON STOCK ROTATION AND INTEREST COSTS IMPUTED TO CAPITAL COSTS OF ACQUISITION. FINANCING COULD BE BASED ON DIRECT CONTRIBUTIONS AND A LEVY, THE LEVY POSSIBLY APPLYING TO THE RUNNING COSTS.

4. SIMULATIONS USING THE PLUS OR MINUS 10 PERCENT RANGE INDICATE EXPORT CUT-BACKS OF 52, 88 AND 58,000 MT IN 1980, 81 AND 82 IN ADDITION TO THE BUFFER STOCK ALREADY BEING HELD. SUGGESTIONS ARE MADE AS TO GUIDELINES FOR QUOTA DISTRIBUTION BUT ACTUAL ENTITLEMENTS WOULD HAVE TO BE NEGOTIATED. SURPRISINGLY NO ESTIMATES ARE MADE OF POTENTIAL COSTS ASSOCIATED WITH SUCH QUOTAS AND IMPRESSION IS LEFT UNCLASSIFIED

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PAGE 03 GENEVA 12351 120317Z

THAT COSTS ARE RESTRICTED TO BUFFER STOCK ACTIVITIES. LIKEWISE NO SUGGESTION IS MADE AS TO WHO WOULD PAY SUCH QUOTA-RELATED COSTS LEAVING IMPRESSION THIS WOULD BE UP TO PRODUCERS.

5. BY AND LARGE THE STUDY IS ONE OF THE MOST COMPREHENSIVE AND PROFESSIONAL YET TO BE SUBMITTED TO A COMMODITY MEETING. IT MERITS THOROUGH STUDY AND DELEGATIONS WILL HAVE TO BE PREPARED FOR SUBSTANTIVE COMMENT. IT WILL BE VERY INTERESTING TO HAVE THE REACTIONS OF PRODUCERS SINCE MUCH OF THE SUCCESS DEPENDS ON THEIR FLEXIBILITY IN ADHERING TO QUOTAS WHICH MAY BE SET ON FAIRLY SHORT NOTICE IF BUFFER STOCK IS INADEQUATE. CONSUMERS ON THE OTHER HAND WILL BE ASKED TO CONTRIBUTE EITHER DIRECTLY OR INDIRECTLY TO FAIRLY HIGH ANNUAL COSTS OF OPERATION IN ORDER TO STABILIZE PRICES IN A RATHER NARROW RANGE AROUND A PRICE WHOSE TREND IS DIFFICULT TO ESTABLISH AT PRESENT. SORENSON

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